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S E C R E T SECTION 01 OF 02 BAGHDAD 004345

SIPDIS

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TAGS: [ECON](#) [ENRG](#) [EFIN](#) [ETRD](#) [EPET](#) [MOPS](#) [MARR](#) [PGOV](#) [PREL](#) [TU](#) [IZ](#)

SUBJECT: IRAQ'S FUEL SITUATION WORSENS UNDER IMPACT OF
BLACKOUTS, PIPELINE INTERDICTIONS AND UNPAID BILLS

REF: A. BAGHDAD 4335

[1](#)B. BAGHDAD 4322

[1](#)C. BAGHDAD 4231

Classified By: Economic Minister Counselor Tom Delare for reasons 1.4 (b) and (d).

[1](#)1. (S) Summary: National power blackouts and repeated interdictions of crude oil and product supply lines to and from major refineries have reduced Iraq's domestic fuel production, and increased its reliance on imported fuel. Stores of gasoline are low (critically in the north) and dropping, as are stores of LPG. A protest against the fuel shortage October 18 turned violent in Mosul. Fuel imports from Turkey, however, are extremely low, due largely to Iraq's failure to pay its bills to Turkish suppliers. The GOI seems to be moving to meet a significant part of these arrears in the next several days. End Summary.

Domestic Production Low

[1](#)2. (S) Refineries in Iraq are operating below capacity due to the effect of a series of blackouts October 14, 17 and 18, as well as interruptions in the supply of crude oil. Although Daura refinery was able to maintain operations, both Bayji and Basrah were forced to shut down, only now gradually returning to operation. After running several days under 20%, Bayji's production reached 51% of capacity on October 20; Daura increased its capacity to 88% (up from production levels in the mid-70s), with crude oil arriving by tanker truck. The October 13 explosion at the al-Fatah crossing of the Tigris, coming on the heels of previous interdictions, has forced the Ministry of Oil (MoO) to move an increasing amount of crude oil by truck in order to keep the refineries working. Most recently, the interdiction of the 26 inch Kirkuk-Bayji crude oil line October 20 and resulting fire reduced pumping of crude oil across al-Fatah, limiting the supply to Bayji refinery and exports to Turkey for the second time in the past month. Repairs are expected to take eight days once the fire is extinguished.

And Increasingly Difficult To Move

[1](#)3. (S) Moving refined products to market from the refineries is also becoming increasingly difficult. Supplies in Baghdad (plussed-up prior to the referendum) are gradually declining; these reached 6.4 days of supply on hand October 20 (down from 10.2 the previous week). The interdiction of the 8 inch LPG Bayji-Baghdad pipeline October 19 has cut off Baghdad's main line supplying the capital with cooking fuel. Stocks of LPG were already under two days on hand (down from a six a week ago) in both Baghdad and Mosul as of October 20. Furthermore, the last remaining LPG line to Baghdad (the 14 inch) is under threat from the October 20 fire on the 26 inch crude pipeline.

[1](#)4. (S) In the northern provinces, however, the situation is worse, and black market prices for fuel have skyrocketed in recent weeks (Ref A). Mosul reported just over a one-day supply of gasoline on hand October 20. Crowds protesting the shortage of gasoline turned violent in Mosul October 18, setting fire to two gas stations. Local media reported October 20 that official gas stations in Kurdistan had closed due to lack of supply.

"Check's In the Mail" Redux

[1](#)5. (C) The GOI acknowledged that it is some \$450 million behind in payments to Turkish fuel suppliers; it is not clear when exactly the bill will be paid (Comment: Turkish MFA officials put the total arrears at \$840 million. End Comment). The Ministry of Finance, after consulting with MoO (Ref B) has authorized the payment of this amount from the Ministry of Oil's capital budget. An additional approval from the Ministry of Planning and Development Cooperation (MoPDC) is also required, however, as MoPDC must authorize any capital budget transfers. Contacts at MoPDC reported October 19 that the Minister intends to sign the necessary paperwork, but this approval and processing the actual

payment through the Ministry of Finance may take several more days. If all goes according to plan, the Federal Reserve Bank of New York should receive a payment order by Monday October 24.

16. (C) Comment: The lack of redundancy in the electrical grid caused by a series of attacks on electrical towers leaves the system vulnerable to outages that, in turn, cause the refineries to go offline. Pipeline interdictions, regardless of cause, interrupt both the flow of crude to the already under-producing refineries and the delivery of product to markets. Iraq's imports, necessary to meet the over 50% of the country's demand unmet by domestic production, are increasingly unreliable - no surprise, given the GOI's attempts to float its fuel import arrears.

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